Global Insurance Industry Trend 2020

ABSTRACT

Global non-life and life insurance premiums are projected to grow at about 3% respectively in 2020/21 and especially, Asian emerging markets will drive global insurance growth.

Non-life insurance premium growth will regain its average growth level. Emerging markets, including China, are anticipated to show outstanding performance, not just for the non-life insurance but also for the life insurance sector. The outlook for the life insurance sector is positive in the foreseeable future, despite low interest rates, due to robust returns on equity.

M&A activity was very strong in 2019 and is expected to increase in 2020. Life insurers need to realign their investment strategies because the yields on their bond portfolios will fall due to low interest rates.

1. Insurance industry outlook

Global non-life and life premiums are projected to grow at about 3% respectively and Asian emerging market will grow outstandingly. In particular, Asia will drive overall growth over the next two years, with China leading the way. Asia's 2020 non-life insurance premiums (based on personal lines excluding auto insurance) are expected to rise by 9% and life insurance premiums by 11%. The emerging market's share of global premiums is forecast to rise from the current 23% to 33% in 2029 while advanced markets' share falling from the current 77% to 67% in 2029.

The global premium growth rate for the 2020/21 non-life insurance market is expected to be around 3% and the insurance premium rate will continuously increase throughout the sector, but the profitability outlook is unclear. In particular, premium rates in the commercial lines had kept declining between 2013 and 2017; however, they have rebounded for seven consecutive quarters since the fourth quarter of 2017. EMEA

(Europe, the Middle East, and Africa), Asia-Pacific, and Latin America will grow at a low rate, but Asia will stay ahead in the emerging markets. Underwriting profits will improve in the US non-life insurance market, while there will be little change in the European market in 2020/21. The combined ratio in Australia is expected to fall, and a decrease in auto insurance sales in China will undermine its profitability.

The global life insurance premiums for 2020/21 are projected to grow at about 3%, with growth in emerging markets (+9%) and advanced markets (+1.5%). The prospect of the life insurance sector is positive despite low interest rates due to robust returns on equity. Real premium income in advanced markets will stagnate (+0.5%) except for North America (+2%) while emerging markets premium growth will reach about 9% (11% in China and 5% in others). Returns on equity levels of life insurers have risen steadily in the US, with a shareholder-equity weighted average of 10.4% using 2019 part-year data.

2. Main issues

There are two main issues regarding the 2020 insurance industry. First is increasing M&A activity. Insurers completed 222 M&A transactions in the first half of 2019, up by 13.2% from the second half of 2018 (196 cases), the biggest increase since 2015. There will be increasing M&A transactions for Insurtech investment and product portfolio expansion. Global Data estimated the global insurers' M&A transactions during December 2019 worth about 12.92 billion USD, much higher than the monthly average in 2019, 2.96 billion USD. Insurtech, portfolio optimization, entery to emerging markets, changes in regulations will continue to stimulate M&A activity.

Second is prolonged low interest rates. The protracted low interest rate environment will drag down government bond yields and falling bond yields will be particularly burdensome for life insurers. Therefore, life insurers need to realign their investment strategies. Though life insurers invest in a wide range of asset classes, their investment portfolios are heavily weighted in fixed-income assets. Therefore, if government bond yields are falling, life insurers' investment returns will deteriorate. Lower investment returns will make it challenging to pay interest on guaranteed interest products and

affect insurers' claims-paying abilities. To secure higher investment returns, life insurers will increase investment in alternative asset classes, such as private equity, real estate, etc., and lower-rated corporate bonds. However, they need to balance between investment return and risk of assets, in order to meet regulatory requirements.

Seog Young Kim, Senior Research Fellow
skim@kiri.or.kr
Min-sook Sohn, Researcher
sms27@kiri.or.kr